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The Soviet Hard Currency Position and Prospects

Basic Facts

-- The Soviet hard currency position has worsened greatly in the last 18 months as a result of falling oil prices, poor harvests, sluggish Western markets and Poland's financial needs.

-- In response to this situation the USSR has sold more gold in a depressed market, cut imports and increased its use of short term credit.

-- Gross Soviet debt at the end of 1981 totaled $19.3 billion. With hard currency assets of about $8 billion in Western banks, net debt amounted to about $11 billion.

-- Net debt service payments amounted to about $5 billion in 1981, which results in a debt service ratio of 14 to 22 percent, depending on how broad a measure of export earnings is used--that is, whether arms sales, gold sales, and earnings from invisible transactions are included--and on whether interest payments are calculated on a gross or a net basis.

Key Judgments

Prospects for Soviet Hard Currency Earnings

The purchasing power of Soviet hard currency earnings is unlikely to increase and may decline during the next few years (through the mid 1980s).

- The volume of oil exports to the West will probably continue to decline; oil prices have fallen sharply in real terms during the past year and are unlikely to increase through at least 1985.

- Higher Soviet earnings from gas exports will probably not offset the decline in oil exports at least until the Yamal pipeline is completed.

- Prospects for other Soviet exports are mixed: although exports of some products, especially chemicals, should increase, it will be difficult for the Soviets to avoid declines in earnings from exports of wood and arms.

Export prospects for the late 1980s and beyond are far more uncertain than those for the next few years. Oil export volume may decline further or oil exports may cease; on the other hand real oil prices may increase, and there would be time to develop other exports.

Soviet Import Possibilities

The Soviets apparently have been planning for increases of 2 to 3 percent a year in the volume of imports from the West during 1981-85.

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The performance of the Soviet economy has been far worse than planned, both in industry and in agriculture. The longer-term outlook is for a rate of Soviet economic growth inadequate to sustain the rapid expansion of military spending while at the same time raising consumer welfare--in other words, the Soviet economic setting will be greatly different than in the past.

The deterioration of economic performance will make additional imports from the West especially valuable to the USSR. But if Soviet export earnings stagnate or decline in the next few years, imports cannot be increased without a growing net outflow of Western capital to the USSR, which would mean a further increase in the Soviet hard currency debt.

Soviet Policy Concerning Western Credits and Hard Currency Debt

Although in past years, Moscow has followed cautious balance of payments and debt policies, we cannot count on these policies being followed in the future.

To avoid a substantial accumulation of hard currency debt will require painful steps on Moscow's part. Additional import cuts would involve either very high priority projects, major products in short supply, especially steel, or politically sensitive grain imports.

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Table 1
USSR: Hard Currency Payments, 1975-1981
(Million US $)

	1975	1976	1977	1978	1979	1980	1981[a]
Trade balance	-6,419	-5,595	-3,300	-3,794	-2,036	-2,519	-4,000
Exports, f.o.b.	7,838	9,721	11,345	13,157	19,549	23,498	23,800
Imports, f.o.b.	14,257	15,316	14,645	16,951	21,585	26,017	27,800
Gold sales	725	1,369	1,618	2,522	1,490	1,780	2,700
Net interest	-568	-716	-846	-881	-799	-710	-1,300
Arms receipts	1,200	1,500	1,500	1,700	5,500	3,300	5,000
Other invisibles and transfers	351	511	1,800	1,823	-360	1,600	1,000
Current account balance	-4,711	-2,931	772	1,370	3,795	3,451	3,400
Direct investment abroad	-3	-31	0	0	0	0	0
Gross drawings	6,689	6,632	4,031	4,165	5,311	3,333	6,100
Government backed	1,972	2,611	1,991	2,565	2,411	2,433	2,300
Commercial	4,717	4,021	2,040	1,600	2,900	900	3,800
Repayments	1,287	2,445	3,238	3,443	3,625	4,061	3,300
Government backed	730	1,056	1,305	1,476	1,722	1,966	2,000
Commercial	557	1,389	1,933	1,967	1,903	2,095	1,300
Lending to other countries[b]	295	-1,711	140	-1,582	-2,926	200	200
Capital account balance	5,694	2445	933	-860	-1,240	-528	3,000
Statistical discrepancy[c]	980	468	1,705	-510	-2,555	-2,923	-6,400

a Estimated
b Net changed in Soviet assets held with Western commercial banks (a negative sign signifies an addition to assets).
c Includes intra-CEMA hard currency trade and other transactions.

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Table 2

USSR: Hard Currency Imports

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Millions of current US dollars										
Total	2,943	4,157	6,547	8,448	14,257	15,316	14,645	16,951	21,585	26,017
Grain	185	770	1,423	509	2,323	2,627	1,354	2,360	3,279	4,360
Other agricultural products	475	423	933	1,273	1,533	1,458	1,836	1,478	2,287	4,400
Machinery	960	1,282	1,739	2,334	4,593	5,074	5,114	5,969	6,028	6,039
Rolled ferrous metals	366	489	884	1,905	2,565	2,251	1,750	2,503	3,413	3,469
Chemicals	213	257	279	720	742	630	670	831	1,203	1,565
Other	744	936	1,289	1,707	2,501	3,276	3,921	3,810	5,375	6,184
Millions of constant US dollars (1970)										
Total	2,705	3,547	4,242	5,118	7,268	8,254	7,470	7,292	8,430	9,166
Grain	185	733	730	196	997	1,257	670	937	1,100	1,188
Other agricultural products	484	298	339	615	751	715	649	471	757	1,419
Machinery	946	1,149	1,353	1,622	2,700	2,929	2,827	2,716	2,512	2,350
Rolled ferrous metals	215	321	583	1,074	1,030	1,147	909	1,113	1,423	1,330
Chemicals	211	253	261	510	460	376	307	347	435	580
Other	664	793	976	1,101	1,330	1,830	2,108	1,708	2,203	2,299

This table is Unclassified.

USSR: Hard Currency Exports

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Million current US dollars										
Total	2,630	2,801	4,790	7,470	7,838	9,721	11,345	13,157	19,549	23,498
Petroleum	567	556	1,248	2,548	3,276	4,514	5,275	5,462	9,558	12,028
Natural gas	20	23	23	86	220	347	566	1,063	1,404	2,706
Coal and coke	125	121	135	252	391	370	359	293	313	362
Machinery and equipment	184	225	299	341	560	657	789	1,188	1,419	1,388
Ferrous metals	131	134	204	222	167	171	186	145	225	246
Wood and wood products	360	403	714	1,009	712	852	1,045	967	1,357	1,476
Chemicals	73	75	118	261	256	215	229	300	555	765
Agricultural products	346	347	414	685	572	627	730	545	570	478
Diamonds	257	371	515	545	478	511	606	773	1,043	1,304
Other	567	546	1,120	1,521	1,206	1,457	1,560	2,421	3,105	2,745
Million constant US dollars (1970)										
Total	2,430	2,423	2,801	2,885	2,848	3,174	3,308	3,962	4,044	3,686
Petroleum	441	406	437	375	476	588	813	747	611	592
Natural gas	13	26	26	65	91	156	182	221	273	273
Coal and coke	80	78	83	92	86	89	88	70	65	58
Machinery and equipment	153	169	195	199	277	319	314	514	566	507
Ferrous metals	156	184	222	232	182	174	123	142	141	134
Wood and wood products	361	402	445	387	361	449	427	405	380	328
Chemicals	77	97	114	188	159	129	143	196	324	403
Agricultural products	336	219	173	252	264	227	256	175	138	112
Diamonds	252	346	359	315	282	284	291	376	380	376
Other	561	496	747	780	670	759	671	1,116	1,166	903

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Table 3

USSR: Hard Currency Debt to the West

Million US $
Except as noted

	1971	1975	1976	1977	1978	1979	1980	1981[a]
Commercial debt	400	6,900	9,700	9,800	9,500	10,500	10,000	12,500
Government-backed debt	1,400	3,600	5,200	5,900	7,000	7,800	8,200	8,500
Gross debt	1,800	10,500	14,900	15,700	16,500	18,300	18,200	21,000
Assets with Western banks	1,200	3,100	4,700	4,500	6,000	8,800	8,600	8,400
Net debt	600	7,400	10,200	11,200	10,500	9,500	9,600	12,600
Debt service	300	1,800	2,300	3,100	4,100	4,000	4,900	5,300

[a] Preliminary

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Table 4

USSR: Comparative Debt Service & Debt Service Ratios, 1981

Exports (Billion US $)	
Merchandise exports	23.8
Merchandise & arms exports	28.8
Merchandise, arms & gold exports	31.5
Merchandise, arms, gold exports, & net invisibles	32.5
Debt Service (Billion $)	
Repayments	3.3
Official	2.0
Commercial	1.3
Interest payments	2.0
Official long and medium term	0.5
Commercial long and medium term	0.7
Short term	0.8
Gross debt service	5.3
Net debt service	4.6
Gross & Net Debt Service Ratios[a]	
Gross debt service as percent of:	
Merchandise exports	22.3
Merchandise & arms	18.4
Merchandise, arms, and gold	16.8
Merchandise, arms, gold and invisibles	16.3
Net Debt Service as a Percent of:	
Merchandise exports	19.3
Mechandise and arms	15.9
Merchandise, arms, and gold	14.6
Merchandise, arms, gold and invisibles	14.1

[a] Gross Basis -- Debt service calculated on gross interest payments.
Net Basis -- Debt service calculated on net interest payments.

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